

EFOODS restructuring reflected in improved 1Q review...

EFOODS improved its net earnings by 4% on Y-o-Y basis to Rs. 1.1bn. EFOODS EPS for 1QCY16 increased to Rs. 1.45 from Rs 1.39 reported in the corresponding last year.

EFOODS 1QFY16 result shows that sales decreased by 7% to Rs. 11.8bn. Growing completion with newly launched brands especially tea whiteners have reduced market share of EFOODS. Decrease in sales is mostly attributed to increase in competition by tea whitening products viz. CupShup and Dostea. In addition to this, completion also increased in UHT segment thus poses challenge for OLPERS – which is main revenue earner.

In 1QCY16 EFOODS operating expenses reduced significantly on Y-o-Y basis and reached to Rs 1.66bn from Rs. 1.82bn (1QCY16). This 9% decrease in operating expenses is one of the key reasons behind improved bottom line.

EFOODS increased its biological assets and now able to produce milk by 24% to 2739 cattle last year.

We expect that in 1Q2016 EFOODS had increased its capacity utilization to 68% and produces 137mn liters of milk. EFOODS has its own livestock unit. We expect that EFOODS has also reduced cost of production from dairy farms production and distribution units. We await EFOODS detailed IQ filings.

Reduction in expenses & financial cost.....In 1QCY16 EFOODS has reduced its administration expenses by 41% for 1QCY15 which were Rs. 325mn.

EFOODS financial cost reduced by 62% from 1QCY15 which was Rs. 266.66mn. Reduction in financial cost is mostly due to cheaper borrowing rates throughout 1QCY16.

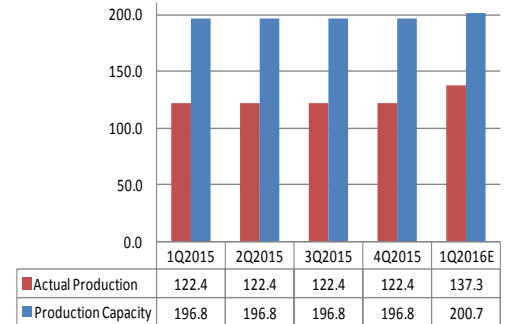
Profit margin for EFOODS improved by 1 percentage point as compared to 1QCY15 which is mostly attributed to reduction in admin expenses and financial cost. In 1QCY16 Operating margin of company has also shown improvement with lot of known management restructuring.

Key events awaited...Dutch entity FriesLandCampina conducting due diligence to acquire 51% stakes from Engro Corp in EFOODS as per Mar 3, 2016 notice at PSX. We expect this acquisition price could be at a discount to current market price, as happens in such cases – whenever deal would materialize. However, we do not see any price impact once such deal would materialize. If deal materializes then it could have a long-term bearing on EFOODS with lot of synergies.

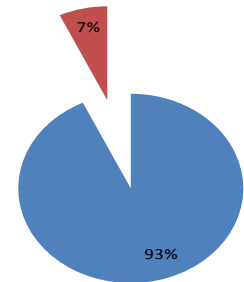
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EFOODS price 152.9

Our estimated production (mn. of litres)



■ Dairy, Beverages and others ■ Ice cream



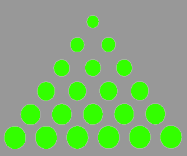
Source EFOODS 2015 report



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Our CY16 EPS perspective remains Rs5.85/sh vide our April 13, 2016 report. This entails CY16PE of 26x versus NESTLE CY16PE of 39x.

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